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An Empirical Study on the Factors Affecting the Start-up Ecosystem

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Abstract

Nowadays, interest in start-ups has increased due to their significant contribution to the economy. This study aims to investigate the factors affecting the start-up ecosystem. Additionally, it answers the research question as to whether people of different age groups would look at the start-up ecosystem factors in different ways. The study has used the quantitative analysis method. Out of a total of 120 samples collected through an online survey using a random sampling technique from different parts of Oman, 113 were used in the final analysis. The study has found that the main obstacles the start-up companies encounter during the early phases of their business include financial support, marketing help, professional networking, government incentives, government regulations, and investors' willingness. Among all the major obstacles reported were the financial support (19%) and the marketing support (18%), while the least were the government incentives (15%) and the investors' willingness (15%). The age group 19 and below, and 38-43 considered financial and marketing help as the most important factors for start-up companies. While the age groups 20-25 and 32-37 considered marketing help, the age group 26-31 years considered the government regulations and policies and investors' willingness the most important factors. The participants of age groups 44-49 looked at the need for marketing, finance, and professional networks as the most important factors for start-up companies. Hence, policymakers need to develop mechanisms to provide financial and marketing support to start-up companies to succeed. Additionally, policymakers should not forget that different age groups have different resource requirements for their start-ups.

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1. Introduction

The young entrepreneurs and their start-ups bring innovative tools and techniques to the businesses, thereby re-energizing the country's GDP and economy. Start-ups play a major part in the economy of industrialized countries. For instance, Silicon Valley in the USA is the most promising start-up ecosystem in the world. It is home to prominent high-tech businesses such as Google, Cisco, Facebook, and Apple. Start-ups are businesses that are in the process of developing, testing, and executing a viable and scalable business strategy in order to capitalize on new markets [1].

Notwithstanding, start-ups frequently fail, with only a few succeeding, probably due to the lack of fiscal resources and managerial and practical experience. Considering the significance of start-ups, a lot of research has been conducted to identify the factors associated with the success of start-ups. In Asian countries, there are a variety of roadblocks to the development and growth of start-ups. Lam and Mok [2] conducted a study on barriers to start-ups in Hong Kong. They reported conservative rules, investors' unwillingness, and a lack of advertising outlets. Professional networking, access to knowledge, and government backing are other obstacles [3]. Rahardjo and Sunuantari [4] highlighted the importance of Techno Park in collaboration, sharing and generating ideas, and providing means to get financial support. The professional networks and marketing skills help in funding, information, and competent personnel exchange [5]. The start-up is new to the unpredictable business environment. They do not have a history of operation and experiences, thus making them vulnerable [6].

However, the existing studies have not considered different age groups while evaluating the factors. Thus, identification of primary factors in the start-up ecosystems along with different age groups will assist the policy designers in concentrating on the core elements. The present study aims to conduct an empirical analysis of the factors that would influence the start-up ecosystem. We used survey questionnaires with a set of questions extracted from the literature. To achieve the objective of this research, the study has deployed quantitative methods as part of a multi-strategy design.

There are seven sections. Section 2 describes the literature review. Section 3 discusses the research method. Section 4 explains the analysis. Section 5 presents the results and discussion. The last section summarizes the findings.

2. Literature review

The factors affecting the ecosystem of start-ups identified from the literature are financial backing, marketing, professional networking, government incentives, regulations, and investors' willingness. According to Schuh and Woelk [7] start-ups need ideas, capital, and brands to evolve and succeed. Listed are the critical success factors for start-up ecosystem:

Financial support: To develop the product and provide innovative solutions, seed-funding is required [8]. The burn rate of money is significant at the early stage, particularly for completing licensing and certification requirements; it is critical for innovative firms to start with enough initial funding [9]. Brown et al. [10] argued that a lack of venture funding has long-term consequences for a company's success. Setting up venture capital funds for start-up companies mainly at the pre-seed level enables them to sustain and focus on innovation.

Marketing support: Noelia and Rosalia [5] investigated the effect of marketing on the entrepreneurial ecosystem's ability to overcome barriers throughout time, as well as the evolution of various sorts of hurdles that innovative enterprises face. Uncertainty about a new product's distribution methods and access to consumer sales locations can often affect sales at launch. The start-ups face the reputation of uncertainty in their operations and limited market experience, thereby the experts and competent people resist joining them [11].

Professional or business networking: The advantage of business networking is that it helps start-ups to get funding from new sources. Panetti et al. [12] explored the relationships between university-firms-government and financial investors in the start-up ecosystem. The Chinese government encouraged research cooperation between industry and universities [13]. The business networking helps in identifying the goods that are required in the market. Business networking can direct innovators and start-ups to the potential areas, which have a higher percentage of successful commercialization.

Government regulations and policies: The start-up ecosystem is shaped by government policy. In terms of government assistance, a compensation guarantee from the public sector to private investors would act as a cushion, lowering the penalty for poor investment decisions [14]. Even countries with high taxes and labor expenses can become globally competitive if they can repay capital investors with a tax credit provided by supporting public policy [15].

Investors' willingness: When it comes to riskier initiatives, however, investors demand big profits and shorter repayment timeframes [16]. The start-ups frequently lack market credibility and legitimacy, making it difficult for them to acquire commercial and institutional partners with whom to collaborate [17].

3. Research method

This study has used a quantitative method and a cross-sectional approach. In cross-sectional studies, researchers look at one independent variable and more than one dependent variable at a particular point in time. The independent variables considered in the project are age, and education/qualification, while the dependent variables are financial support, marketing help, professional networking, government incentives, government regulations, and investors' willingness. The study involved a case in Oman. According to Yin [18], a case study aids in the investigation of the phenomenon under investigation in its natural setting by employing a variety of data collection methods to acquire information from all participants. The collected data were cleaned for missing and incomplete values. A total of 120 samples were collected through an online survey applying random sampling techniques from different parts of Oman. After cleaning the data, 113 were used in the final analysis using IBM SPSS 26.0.

4. Analysis

The study samples contained 42% females and 58% males. The age groups were 19 and below (1.8%), 20-25 (33%), 26-31 (16%), 32-37 (17%), 38-43 (24%), 44-49 (9%), 50 and above (1%). Table 1 shows the demographic profile of respondents.

Table1. Demographic profile of respondents

Gender	% of Total	Age	% of Total
Female	42.5 %	19 and below	1.8 %
Male	57.5 %	20-25	31.9 %
Residence	% of Total		
Ad Dakhiliyah	3.5 %	26-31	15.0 %
Ad Dhahirah	1.8 %	32-37	16.8 %
Al Batinah North	3.5 %	38-43	23.0 %
Al Batinah South	7.1 %	44-49	8.8 %
Al Buraymi	2.7 %	50 and above	2.7 %
		Qualification	% of Total
Ash Sharqiyah North	2.7 %	Foundation program	23.9 %
Ash Sharqiyah South	0.9 %	Master	12.4 %
Dhofar	2.7 %	PhD	16.8 %
Muscat	75.2 %	Undergraduate	46.9 %

4.1. Start-ups ecosystem factors

The mean of financial help, marketing help, professional networking, government regulations and policies, governmental incentive, and investors willingness are 10.43, 10.71, 9.57, 9.71 8.71, and 9. Figure 1 shows the start-ups' ecosystem factors. The highest value 19% corresponds to finance, followed by marketing at 18% and the least is the investors' willingness, and incentives from the government.

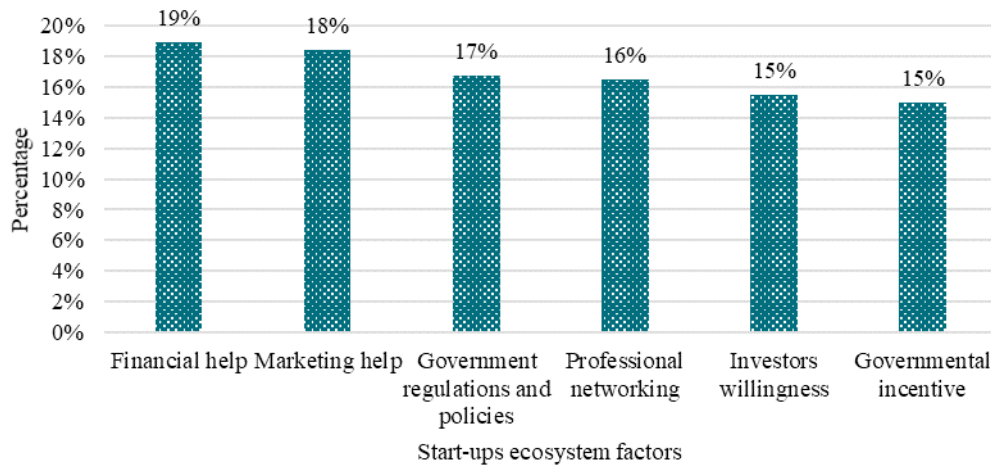


Figure 1. Start-ups ecosystem factors

4.2. Perceptions towards the factors affecting the start-up ecosystem by various age groups

The start-up ecosystem factors are tested against the age groups below 19 years, 20-25 years, 26-31 years, 32-37 years, 38-43 years, 44-49 years, and 50 and above. In the age group 19 and below the majority of the respondents agreed on the need for financial and marketing (33%) help for start-up companies. Similarly, the majority of the respondents agreed on the need for marketing help (18%) in the age groups 20-25 years. Figures 2 and 3 show the start-up ecosystem factors against group 19 and below, 20-25 years.

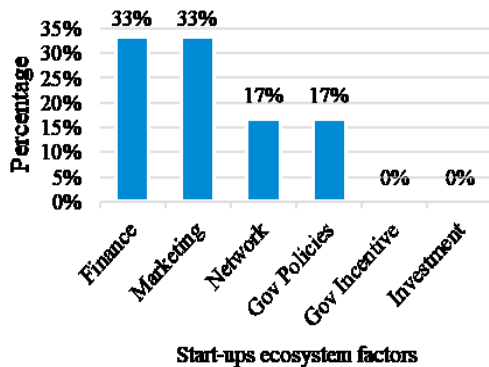


Figure 2. Start-up ecosystem factors Vs age (below 19)

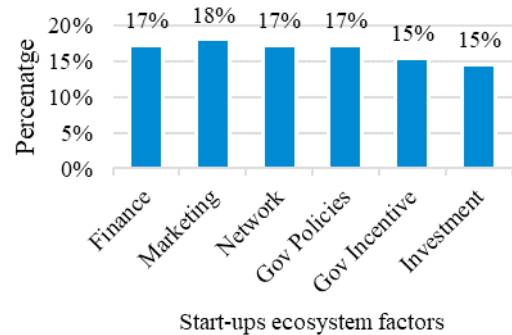


Figure 3. Start-up ecosystem factors Vs age (20-25)

In the age group 26-31 years the majority of the respondents agreed on the need for changes in the government regulations and policies, and investors' willingness (18%) for start-up companies. However, the majority of the respondents agreed on the need for marketing help (20%) in the age groups 32-37 years. Figures 4 and 5 show the start-up ecosystem factors against 26-31 and 32-37 years.

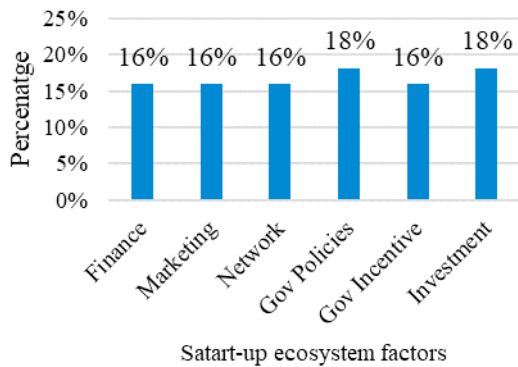


Figure 4. Start-up ecosystem factors Vs age (26-31)

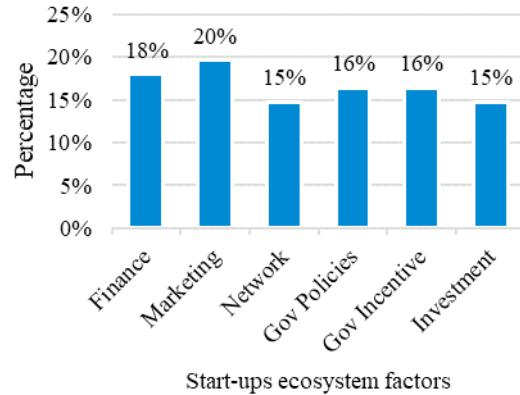


Figure 5. Start-up ecosystem factors Vs age (32-37)

In the age group 38-43 years the majority of the respondents agreed on the finance and marketing (18%) for start-up companies. Similarly, the majority of the respondents agreed on the need for marketing, finance, and professional networks (18%) in the age groups 44-49 years. Figures 6 and 7 show the start-up ecosystem factors against 38-43, and 44-49 years.

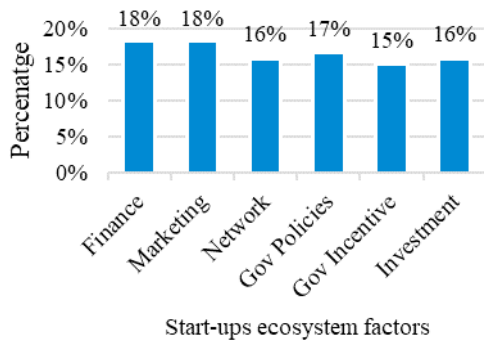


Figure 6. Start-up ecosystem factors Vs age (38-43)

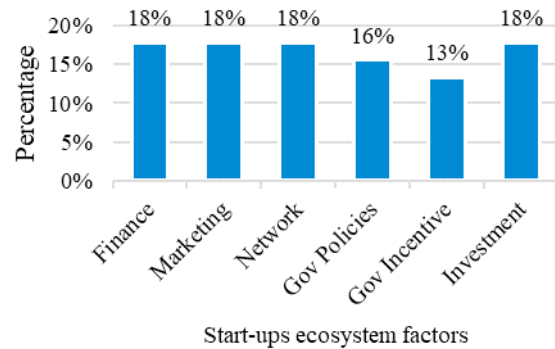


Figure 7. Start-up ecosystem factors Vs age (44-49)

5. Results and Discussion

For a successful business start-up, financial and marketing services are viewed as critical while a clear government policy is essential. The start-ups' ecosystem factors such as financial help, marketing help, professional networking, government regulations and policies, governmental incentives, and investors' willingness weights were 19, 18%, 17%, 16%, 15%, and 15% respectively.

The start-up ecosystem factors were tested against the age groups below 19 years, 20-25 years, 26-31 years, 32-37 years, 38-43 years, 44-49 years, and 50 and above. Among all the age groups, marketing and finance held the highest place except in the age group 26-31 years. Lack of adequate financial support hinders the operations, growth, and promotion of newly established companies. The financial support could be from government-based schemes, private financial institutions, and non-governmental organizations. Having a breakthrough idea is no guarantee of long-term success for a firm. Such businesses frequently seek funding to help their ventures scale up and become lucrative [6]. Investments in start-ups are important to their growth and success. The start-ups in the USA get a number of investors as compared to the developing countries. Around 86 percent of Silicon Valley firms receive significant funding. The companies include payment gateways such as PayPal and Pay Anywhere [19].

In the age group 19 and below, the majority of the respondents agreed on the need for financial and marketing (33%) help for start-up companies. Similarly, the majority of the respondents agreed on the need for marketing help

(18%) in the age groups 20-25 years. The government incentives remained the low-key factor among all the age groups except 32-37 years.

Moreover, the professional network is considered a high-value asset in start-ups by the majority of the age groups. The start-ups often face obstacles in accessibility to professionals who could share their experiences. The professionals from industrial sectors are difficult to reach, who could otherwise assist incubating businesses in creating and promoting their product breakthroughs. Interactions and exchanges with the resources are essential for the generation of new information as well as access to credit, technical, and human resources [20].

Government policies are another high-value asset in start-ups by the majority of the age groups. According to Surana et al. [21] frequent changes in government policies and inconsistencies are a major challenge to the start-up ecosystem. The Omani government has increased its efforts to encourage its start-up community in recent years through a variety of government initiatives. An SME development group called Riyada provides a one-stop shop for starting a firm, as well as financial assistance, skills training, and discounted space and facilities.

Oman's position on the Early Stage Venture Deals index has improved, with the Sultanate now ranking fourth in the Middle East and North Africa (MENA). Support funding for start-ups includes the Innovation Development Oman Holding (IDO) and Oman Technology Fund (OTF). The Oman Technology Fund (OTF) was established in 2016 with \$200 million to support start-ups. OTF invests in pre-seed, seed, and venture capital funds in Oman and MENA with the purpose of recruiting global start-ups to set up shop locally. There are three investment programs in the OTF such as "Wadi Accelerator," "Techween Incubator," and "Jasoor Ventures". The government and private sectors are working hard to support the start-ups; however, the area needs further research and redesign of policies in the context of developing countries such as Oman.

6. Conclusion

The present case-study investigated the factors affecting the start-up companies through case study in Oman. It was observed that the common obstacles the start-ups would encounter during the early phases of their business include financial support, marketing help, professional networking, government incentives, and investors' willingness. The small size, novices of the business, and lack of prior expertise aggravated the barriers. These businesses may be able to lessen the barriers they confront if they continue to innovate. The start-ups can gain the trust of vendors, customers, and government entities and thus can have refunds provided they are producing the market-ready ideas. The incubation program is one of the most important policy instruments for supporting innovation, as it requires interaction between business and academia to ensure that university research is effectively utilized. In the course of techno-economic growth, the government works as a catalyst.

This study has provided valuable lessons for the start-up ecosystem in Oman. The researchers recommend that decision makers and the management should provide necessary financial support to the start-ups as both short-term and long-term strategies depending upon the needs of different age groups. While government support and financial access have improved slightly, regulatory reforms are still needed to make it easier for start-ups to, with minimal red tape, obtain the appropriate licenses. Although this study has covered the important factors affecting start-up ecosystems, there may be additional factors including the socio-cultural environment. Moreover, in future detailed analysis on the subject would be conducted a larger sample size.

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